

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT OF FOREIGN MILITARY SALES
DESIGN AND CONSTRUCTION SERVICES

Report No. 96-006

October 12, 1995

19991213 142

Department of Defense

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

DTIC QUALITY INSPECTED 3

AQI00-03-0733

Additional Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

AFMC
FMS
TAD

Air Force Materiel Command
Foreign Military Sales
Transatlantic Division



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**



Report No. 96-006

October 12, 1995

**MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF DEFENSE
(INSTALLATIONS)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE SECURITY ASSISTANCE
AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit of Management of Foreign Military Sales Design and Construction
Services (Project No. 5LG-5022)**

Introduction

We are providing this report for information and use. We evaluated the management of foreign military sales (FMS) design and construction services. In addition, we examined the role of the Air Force in the administration of FMS construction projects at the request of the then Assistant Deputy Under Secretary of Defense (Conservation and Installations). In August 1994, the Office of the Assistant Deputy Under Secretary of Defense (Conservation and Installations) was reorganized as part of the Office of the Deputy Assistant Secretary of Defense (Installations).

The Arms Export Control Act defines design and construction services as the design and construction of real property facilities, including necessary construction equipment and materials, engineering services, construction related contract management services, and technical advisory assistance in the operation and maintenance of real property facilities provided or performed by any department or agency of the DoD or by a contractor. As of April 1995, 179 FMS cases were open with a value of about \$18 billion for design and construction services. The 179 cases consisted of 251 case line items¹ of deliverables or services. Each case line item could consist of numerous contracts. For example, one case in our universe consisted of more than 300 contracts. As of June 1995, about 96 percent of the projects' funds were expended.

¹A case line item on a Letter of Offer and Acceptance describes the defense article or service to be provided to the customer. A Letter of Offer and Acceptance is a contract between the U.S. Government and a foreign government, in which the foreign government agrees to allow U.S. Government representatives to act on its behalf to procure defense articles and services.

Office of the Inspector General, DoD

Report No. 96-006
(Project No. 5LG-5022)

October 12, 1995

Management of Foreign Military Sales Design and Construction Services

Executive Summary

Introduction. We evaluated the management of foreign military sales (FMS) design and construction services. In addition, we examined the Air Force's role in the administration of FMS construction projects at the request of the then Assistant Deputy Under Secretary of Defense (Conservation and Installations). In August 1994, the Office of the Assistant Deputy Under Secretary of Defense (Conservation and Installations) was reorganized as part of the Office of the Deputy Assistant Secretary of Defense (Installations).

As of April 1995, 179 FMS design and construction cases consisting of 251 case line items, valued at about \$18 billion, were open. The percentage breakout of the design and construction agents for the 179 cases were the Army, to include the U.S. Army Corps of Engineers, 75.8 percent, the Air Force 24 percent, and the Navy 0.2 percent. Of the design and construction services, Saudi Arabia purchased 93 percent, Egypt purchased 5 percent, and other countries purchased 2 percent. As of June 1995, about 96 percent of the projects' funds were expended.

Audit Objectives. The audit objectives were to determine whether DoD guidance, policy, and procedures governing the procurement of design and construction services for FMS customers were adequate to ensure that:

- o the foreign customers were provided contracted facilities at fair and reasonable prices;
- o the U.S. Government was protected against monetary loss from damages and cost incurred;
- o the construction agents were monitoring performance of contracts; and
- o the Defense Security Assistance Agency was accomplishing congressional reporting requirements in accordance with the Arms Export Control Act.

Additionally, the Assistant Deputy Under Secretary of Defense (Conservation and Installations) requested that we examine the Air Force administration of FMS construction projects, and the effect of outsourcing on the cost to the foreign customer and the U.S. Government. Further, we evaluated the management control program as that program applied to the audit objectives.

Audit Results. DoD guidance, policy, and procedures governing the procurement of design and construction services for FMS customers were adequate to ensure that customers were provided contracted facilities at fair and reasonable prices, and the U.S. Government was protected against monetary loss from damages and costs incurred. Additionally, construction agents were monitoring performance of contracts and the Defense Security Assistance Agency was accomplishing congressional reporting requirements in accordance with the Arms Export Control Act. In response to the request from the Assistant Deputy Under Secretary of Defense (Conservation and Installations) to evaluate the role of the Air Force in the administration of FMS design and construction, the issue was overcome by events. In June 1994, senior representatives from the U.S. Air Force and the Royal Saudi Air Force coordinated an agreement in which the U.S. Air Force would finish the projects in progress and the Royal Saudi Air Force would manage any new projects in their country. The Government of Saudi Arabia is expected to sign a Letter of Offer and Acceptance to implement the new process in October 1995.

Management controls were adequate in that no material weaknesses were identified.

Summary of Recommendations. The audit did not result in any findings, as a result, we did not make any recommendations.

Management Comments. We provided a draft of this report to you on August 23, 1995. Because this report contains no findings or recommendations, comments were not required, and none were received. Therefore, we are publishing this report in final form.

This page was left out of orignial document

Audit Results

We reviewed 11 case line items with a total value of about \$2.72 billion and related documentation and reports; however, not every case line item was reviewed for all audit objectives, because either the objective was not applicable, records were not available, or because full review would not have been cost-effective. FMS design and construction services were effectively managed. Specifically, DoD guidance, policy, and procedures for the procurement of design and construction services for FMS customers were adequate to ensure that customers were provided contracted facilities at fair and reasonable prices, and the U.S. Government was protected against monetary loss from damages and costs incurred. Additionally, the construction agents were monitoring performance of contracts, and the Defense Security Assistance Agency was accomplishing congressional reporting requirements in accordance with the Arms Export Control Act.

In response to the request from the Assistant Deputy Under Secretary of Defense (Conservation and Installations) to evaluate the role of the Air Force in the administration of FMS design and construction, the issue was overcome by events. In June 1994, senior representatives from the U.S. Air Force and the Royal Saudi Air Force coordinated an agreement in which the U.S. Air Force would finish the projects in progress and the Royal Saudi Air Force would manage any new projects in their country. In October 1995, the Government of Saudi Arabia is expected to sign a Letter of Offer and Acceptance to implement the new process.

Audit Objectives

The audit objectives were to determine whether DoD guidance, policy, and procedures governing the procurement of design and construction services for FMS customers were adequate to ensure that:

- o the foreign customers were provided contracted facilities at fair and reasonable prices;
- o the U.S. Government was protected against monetary loss from damages and cost incurred;
- o the construction agents were monitoring performance of contracts; and
- o the Defense Security Assistance Agency was accomplishing congressional reporting requirements in accordance with the Arms Export Control Act.

Additionally, the Assistant Deputy Under Secretary of Defense (Conservation and Installations) requested that we examine the Air Force administration of

FMS construction projects, and the effect of outsourcing² on the cost to the foreign customer and the U.S. Government. Further, we evaluated the management control program as that program applied to the audit objectives.

Scope and Methodology

Universe and Sample. The audit universe was comprised of 179 open FMS design and construction cases executed by the Army, the Navy, and the Air Force from May 1965 through April 1995. The 179 cases consisted of 251 case line items of deliverables or services, valued at about \$18 billion. Each case line item may include numerous contracts. We were unable to determine a total universe of contracts associated with the 179 cases because a central repository of contracts was not available, and multiple activities were involved with executing those contracts.

Saudi Arabia and Egypt accounted for about 98 percent of the audit universe; therefore, we concentrated on projects for those countries. From the universe, we judgmentally selected a sample of 11 case line items, valued at about \$2.72 billion. To optimize our review of the sample for the multiple audit objectives, we tested each sample case line item for only the applicable audit objectives. The sample included six Saudi Arabian case line items valued at about \$2.25 billion, and five Egyptian case line items valued at about \$470 million. Of our sample, the Army executed about \$370 million of work, the Navy about \$11 million, and the Air Force about \$2.34 billion.

Audit Methodology and Locations. We evaluated the reasonableness of prices, the U.S. Government liability protection, and the process of monitoring contract performance through personnel interviews and an analysis of supporting documentation. We interviewed FMS country directors; program management; contracting, budget, legal, and quality assurance personnel; and other cognizant personnel at the Office of the Deputy Assistant Secretary of Defense (Installations), the Defense Security Assistance Agency, the U.S. Army Corps of Engineers, Transatlantic Division (TAD), and the Air Force Materiel Command (AFMC), Civil Engineer Squadron.

Documents Reviewed. For the applicable objectives of each of our 11 sample items, we reviewed the pertinent Letters of Offer and Acceptance; Pricing and Availability Statements³; preaward actions, to include the review of the pricing proposals by the Defense Contract Audit Agency; Price Negotiation Memorandums; performance and liability bonds; contract files; agreed-upon

²For the purposes of this report, outsourcing is the use of a private contractor to perform the services usually provided by the U.S. Army Corps of Engineers for the FMS design and construction customer.

³Pricing and Availability Statements are prepared by the Military Departments, the Defense Security Assistance Agency, and other DoD Components in response to a foreign government's request for preliminary data for the possible procurement of a defense article or service.

delivery schedules; construction progress reports; workload statistics; and correspondence and agreements between the U.S. Air Force and FMS customers. The documents reviewed covered the period from May 1965 through July 1995. Organizations visited or contacted are listed in Enclosure 2.

Laws and Regulations. The following laws and regulations were used as audit criteria:

- o Arms Export Control Act;
- o DoD Manual 5105.38-M, "Security Assistance Management Manual," April 1, 1984, chapter 6, paragraph 60005, "Foreign Military Design and Construction Sales";
- o DoD Directive 4270.5, "Military Construction Responsibilities," March 2, 1982; and
- o Federal Acquisition Regulation, part 36, "Construction and Architect-Engineer Contracts," part 6, "Competition Requirements," and DoD and Services Supplements.

Computer-processed Data. We used computer-processed data obtained from the Defense Integrated Financial System to determine the universe of design and construction projects and the distribution of that universe. The Defense Integrated Financial System is managed by the Defense Finance and Accounting Service, Denver Center. We also used the Automated Management Progress Reporting System to estimate the percentage of completion of the projects in the universe. The Automated Management Progress Reporting System is managed by Headquarters, U.S. Army Corps of Engineers. We did not fully assess the reliability of the computer-processed data; however, we performed an overall test of reasonableness by comparing the dollar value of the case line from the Defense Integrated Financial System with the corresponding values from the Automated Management Progress Reporting System. We did not identify any significant variance.

Limitations to Audit Scope. We did not evaluate the trust fund balances or payment schedules of foreign countries to determine whether the foreign countries were making payments for the design and construction services received, in accordance with the terms of the Letters of Offer and Acceptance signed by those customers. Additionally, we did not visit construction sites to verify contractor performance nor did we corroborate the accuracy of work-in-process costs in the TAD project completion reports and documents with the Defense Finance and Accounting Service records.

Audit Period and Standards. Subject to the scope limitations defined above, this program audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, from March through June 1995. We included tests of management controls considered necessary.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We verified the existence and effectiveness of policies and procedures related to costing, contracting, and performance monitoring of FMS design and construction services. However, we performed a limited review of the management controls self-evaluation process. We reviewed the TAD and the AFMC methods for determining assessable units and the associated risks as well as those activities' annual letters of assurance.

Adequacy of Management Controls. We identified no material management controls weaknesses as defined by DoD Directive 5010.38. However, TAD had not reported a material internal control weakness identified by the Army Audit Agency in Report SR-760, "Engineering Assistance Agreement Funds," September 9, 1993. The material control weakness was related to a finding of \$24.2 million of unsupported TAD expenses incurred on Saudi Arabian projects (see Enclosure 1). TAD had not determined the assessable units and associated vulnerability to identify the activities to be included in the annual review plan. The condition occurred because the Department of the Army determined which TAD activities TAD would review annually. Consequently, we were unable to assess the TAD self-evaluation process for determining assessable units and associated vulnerability.

As required by DoD Directive 5010.38, AFMC determined assessable organizational units and associated vulnerability; however, AFMC did not plan reviews of those assessable units identified because the associated vulnerability for those programs was not high. We considered the AFMC management controls adequate as they applied to the audit objectives.

Government Performance and Results Act. Applicability of the Government Performance and Results Act for TAD and AFMC does not begin until FY 1997; however, both organizations had systems in place for monitoring and measuring performance.

Prior Audits and Other Reviews

The Inspector General, DoD, and the Army Audit Agency reported on issues related to FMS design and construction services. The two prior reports are discussed in Enclosure 1.

Audit Background

FMS Design and Construction Services. Pursuant to the Arms Export Control Act, the United States may provide design and construction services to any

eligible foreign country or international organization if that country or organization agrees to pay the full cost for those services. The Arms Export Control Act requires that FMS design and construction services valued over \$200 million be reported to Congress before issuing a Letter of Offer and Acceptance. The report must state the purpose and reasons for the sale. The Defense Security Assistance Agency reports the applicable cases to Congress.

As of April 1995, 179 FMS design and construction cases, valued at about \$18 billion, were open, with one case initiated in calendar year 1965. Of the 179 cases, Saudi Arabia purchased services represented 93 percent of the total case values, Egypt purchased services represented 5 percent, and other countries purchased services represented the remaining 2 percent. The Army, including the U.S. Army Corps of Engineers, provided services for 75.7 percent of the total case values, the Air Force 24 percent, and the Navy 0.3 percent. As of July 1995, about 96 percent of the FMS design and construction projects were completed.

Discussion

DoD guidance, policy, and procedures were adequate to ensure that:

- o FMS customers were provided contracted facilities at fair and reasonable prices,
- o the U.S. Government was protected against monetary loss from damages and costs incurred,
- o construction agents were monitoring performance of contracts, and
- o the Defense Security Assistance Agency was accomplishing congressional reporting requirements in accordance with the Arms Export Control Act. The role of the Air Force as an FMS design and construction agent in Saudi Arabia was no longer an issue. The Saudi Arabian Air Force expressed its desire to manage its new design and construction work, and the U.S. Air Force no longer acted as a design and construction agent on new FMS construction projects.

FMS Customers Provided Contracted Facilities at Fair and Reasonable Prices. To review this objective, we selected seven case line items, valued at about \$1.36 billion. For the seven case line items, we reviewed three Pricing and Availability Statements to determine the basis for the case line item cost estimates. Pricing and Availability Statements for the remaining four case line items were not available. We selected 9 contracts, valued at about \$222 million, of 17 contracts available to examine preaward actions to include the Defense Contract Audit Agency's review of the pricing proposals. The remaining eight contracts were not material. For the nine contracts selected, we reviewed four Price Negotiation Memorandums to determine whether prices were fair and reasonable, and whether the contracting officer relied on the audits of the Defense Contract Audit Agency. Price Negotiation Memorandums for the remaining five contracts were not available.

Applicable DoD policies and procedures were adequate to ensure FMS customers were provided contracted services at fair and reasonable prices. A review of three Pricing and Availability Statements and supporting documentation showed that cost estimates of the Army and the Air Force were supported in all material aspects. Additionally, a review of nine contracts and four applicable Price Negotiation Memorandums showed that the procurement contracting officers relied on the Defense Contract Audit Agency audits of the preaward proposals, as appropriate, in the negotiation of the competitively awarded firm-fixed-price contracts. Contracts not awarded based on full and open competition were awarded at the direction of the foreign customer. Thus, we concluded that customers were provided contracted services at fair and reasonable prices.

United States Protected Against Monetary Loss. Based on our review of 11 case line items, valued at about \$2.72 billion, procedures were in place to protect the U.S. Government monetary interests. The Letters of Offer and Acceptance included proper clauses to ensure reimbursement of full costs incurred and to protect the U.S. Government from performance liability. The Defense Security Assistance Agency, the Air Force, and the Army performed the required legal reviews of the Letters of Offer and Acceptance to ensure sufficient clauses were included to protect the interests of the U.S. Government. Based on our review of 7 contracts, valued at about \$217 million, of 17 contracts available, contracts used to execute the case line item were subjected to adequate legal reviews before contract award. The remaining 10 contracts were not material. Additionally, contractors executed payment and performance bonds required in amounts equal to the value of the contract.

Construction Agents Monitored Performance of Contracts. For 8 case line items, valued at about \$1.34 billion, we reviewed 11 contracts valued at about \$307 million, of 17 available, and concluded that the existing DoD policy and procedures were adequate to ensure that construction agents were monitoring contract performance. TAD as the design and construction agent for 8 of the 11 contracts, performed contract administration, limited program management, and quality assurance in the United States. The remainder of the liaison work, program management and quality assurance was performed in the applicable foreign country. TAD implemented Engineering Regulation 415-1-13, "Design and Construction Evaluation," September 1, 1987, to ensure that the contracting officer representatives in foreign countries were monitoring contract performance effectively. This regulation defines project inspection requirements, including procedures for team composition and qualifications, inspection and reporting procedures, and final disposition of inspection findings.

AFMC relied on Warner Robins Air Logistics Center to monitor contract performance for two of the remaining three contracts, and the last contract was monitored by AFMC representatives in Saudi Arabia. However, AFMC also monitored performance through the examination of the TAD Monthly Project

Status Report and Monthly Financial Management Plan, in addition to participating in the Biannual Management Action Team, Biannual Program Management Review, and weekly teleconferences.

The Defense Security Assistance Agency Accomplished Congressional Reporting Requirements. We reviewed all Letters of Offer and Acceptance for the 11 case line items sampled and determined that DoD procedures were adequate to ensure that congressional reporting in accordance with the Arms Export Control Act was accomplished. The reporting threshold was \$200 million per Letter of Offer and Acceptance. Of the 11 cases reviewed, 4 cases met the congressional reporting threshold. The Defense Security Assistance Agency reported those four cases to Congress as required by the Arms Export Control Act.

Air Force Administration of the FMS Construction Programs. The Air Force used two different approaches to administer FMS design and construction programs in Egypt and Saudi Arabia. For Egypt, the Air Force relied on TAD. For Saudi Arabia, the Air Force relied on the AFMC, weapon system manufacturers, and other private contractors to perform design and construction services. In one instance, the Air Force used outsourcing in Saudi Arabia. Our sample of 10 case line items included 6 executed by the Army and the Corps of Engineers, and 4 executed by the Air Force. The 11th case line, executed by the Navy, was not included in this review because the parties relevant to this audit objective were the Air Force and the TAD. Of the four case line items executed by the Air Force, two were delegated to TAD in Egypt. The other two were managed by the San Antonio Air Logistics Center and the Warner Robins Air Logistics Center for projects in Saudi Arabia. In May 1994, the Assistant Deputy Under Secretary of Defense (Conservation and Installations) requested that we evaluate the Air Force practices of using outsourcing to administer FMS design and construction projects. Additionally, during the audit, the Director, Installation Management, Office of the Deputy Assistant Secretary of Defense (Installations), requested that we review consolidating all military construction under one Military Department.

Air Force Administration of FMS Construction Programs in Egypt. The Air Force Security Assistance Program Manager relied on the AFMC and the TAD to jointly administer two FMS projects in Egypt. The Security Assistance Program Manager assigned the FMS Flight⁴ at the Civil Engineer Squadron of AFMC as the program expert, and TAD as the technical expert. After the final construction design was approved, TAD prepared the solicitation package, advertised the request for proposal, and proceeded to award the construction contract. After the contract was awarded, AFMC, in conjunction with TAD, monitored the construction contractors schedule and performance. AFMC representatives in the foreign country interfaced with the customer. TAD supervised and administered the contract, and monitored the performance and quality of work achieved.

⁴The FMS Flight is an organizational group within the AFMC Civil Engineer Squadron directly involved in the functional administration of the FMS design and construction cases.

Air Force Administration of FMS Construction Programs in Saudi Arabia. The Air Force Security Assistance Program Manager did not rely on TAD for support in Saudi Arabia, for the two Air Force projects in Saudi Arabia included in our sample. AFMC prepared the appropriate acquisition strategy for the project. However, at the request of the Saudi Arabian Government, AFMC did not use TAD as the design and construction agent. For the Peace Shield Program⁵, valued at about \$1.15 billion, AFMC contracted with a management firm to provide the same services as TAD, such as awarding and supervising the design and construction contracts and monitoring performance quality. AFMC provided oversight of scheduling and performance, and interfaced with the Royal Saudi Air Force. For the Peace Sun IX Program⁶, where the estimated value was reduced from about \$803 million to about \$12 million, AFMC acted as the design and construction agent. For example, AFMC helped select the design and construction contractors and supported its own personnel in Saudi Arabia in administering contract modifications and amendments.

Air Force Outsourcing FMS Design and Construction. In one instance, outsourcing occurred in Saudi Arabia; however, we were unable to quantify the impact of outsourcing on the FMS customer. AFMC contracted with a private firm to manage the selection of a design and construction agent for the Saudi Arabian Peace Shield Program. Representatives of AFMC informed us that Peace Shield was the only program in which outsourcing occurred. Egyptian cases similar to the Peace Shield Program were not available for us to perform a comparative cost analysis. As a result, we were unable to determine the effect of the Air Force outsourcing on the costs to the foreign customer.

Air Force Role as a Construction Agent. Representatives of the U.S. Army Corps of Engineers stated that the U.S. Army Corps of Engineers should be the FMS construction agent to the exclusion of the Air Force. However, during the audit, we determined the issue of the Air Force's role as an FMS design and construction agent was no longer material. For Egypt, the Air Force used the TAD as the FMS design and construction agent. In the case of Saudi Arabia, the Saudi Arabian Government requested the Air Force to act as its construction agent. However, since June 1994, the Saudi Arabian Government has started managing its own new design and construction work. In June 1994, senior representatives from the U.S. Air Force and the Royal Saudi Air Force coordinated an agreement in which the U.S. Air Force would finish the projects in progress and the Royal Saudi Air Force would manage any new projects in its country. The Saudi Arabian Government is expected to sign an agreement in October 1995, that will transfer the responsibility of managing the new construction projects to the Saudi Arabian Government.

⁵Peace Shield Program was to design and build radar sites throughout Saudi Arabia.

⁶Peace Sun IX Program was system sale of 75 F-15(S) aircraft to Saudi Arabia. The system sale included design and construction work for adapting three existing air bases to support the new aircraft.

Consolidating Military Construction Under One Military Department. Defense Management Report Decision No. 982, "Management of Military Construction," November 12, 1990, addressed the consolidation of military construction, to include FMS and military construction funded by U.S. Government appropriations, under one Military Department, either under the U.S. Army Corps of Engineers or the Naval Facilities Engineering Command. However, the Deputy Secretary of Defense directed that the then Assistant Secretary of Defense (Production and Logistics), and the Secretaries of the Military Departments review and report to the Deputy Secretary by February 1, 1991, on whether or not a single DoD construction agent should be named for Europe or any other geographic region. There was no evidence that the issue was pursued beyond that point, or that the Deputy Secretary of Defense approved a consolidation. We did not pursue the issue any further since it was beyond the scope of this audit.

Management Comments

We provided a draft of this report on August 23, 1995. Because the report contains no findings or recommendations, comments were not required, and none were received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Evelyn R. Klemstine, Audit Program Director, at (703) 604-9172 (DSN 664-9172) or Mr. Hassan A. Soliman, Audit Project Manager, at (703) 604-9188 (DSN 664-9188). Enclosure 3 lists the planned distribution of this report. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Enclosures

Summary of Prior Audits and Other Reviews

Inspector General, DoD, Report No. 89-100, "Report on the Audit of Royal Saudi Foreign Military Sales Case SR-E-HAQ," August 18, 1989. The audit was conducted in response to an agreement between the United States Government and the Saudi Arabian Government. The objectives of the audit were to verify disbursements made to private contractors, reimbursements to U.S. Military Departments, and the cumulative payment received from the Saudi Arabian Government. The case covered the Saudi Naval Expansion Program which had over 700 construction and construction related contracts in 1989. It was still open as of June 1995. The report identified unsupported expenses of \$4.6 million of the \$3.3 billion reviewed. The auditors issued a memorandum report with no recommendations.

Army Audit Agency, Report SR 93-760, "Engineering Assistance Agreement Funds," September 9, 1993. The report identified \$24.2 million in unsupported TAD expenses. The report stated TAD did not have supporting documentation for disbursements that occurred between 1965 and 1977. The accounting records at TAD and the Defense Finance and Accounting Service-Denver Center had remained out of balance for more than 16 years. The report recommended, and the Army Deputy Chief of Staff approved, writing off the \$24.2 million as an accounting adjustment unbillable to Saudi Arabia.

Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Deputy Assistant Secretary of Defense (Installations), Washington, DC

Department of the Army

Headquarters, U.S. Army Corps of Engineers, Washington, DC
U.S. Army Corps of Engineers, Transatlantic Division, Winchester, VA

Department of the Navy

Navy International Programs Office, Washington, DC

Department of the Air Force

Office of the Assistant Deputy Under Secretary (International Affairs),
Washington, DC
Foreign Military Sales Flight, Command Civil Engineer Squadron, Air Force Materiel
Command, Wright Patterson Air Force Base, OH
Air Force Security Assistance Center, Wright Patterson Air Force Base, OH
Warner Robins Air Logistics Center, Robins Air Force Base, GA

Other Defense Organizations

Headquarters, Defense Security Assistance Agency, Washington, DC

Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (International Security Affairs)
Assistant to the Secretary of Defense (Public Affairs)
Deputy Assistant Secretary of Defense (Installations)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Commander, U.S. Army Corps of Engineers
Directorate for Security Assistance, Deputy Chief of Staff for Logistics
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Director of Navy International Programs Office, Assistant Secretary of the Navy
(Research, Development and Acquisition)
Auditor General, Department of the Navy

Department of the Air Force

Secretary of the Air Force
Deputy Under Secretary of the Air Force (International Affairs)
Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, Defense Finance and Accounting Service
Director, Defense Security Assistance Agency
Director, National Security Agency
Inspector General, National Security Agency

Report Distribution

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

National Security and International Affairs Division, General Accounting Office

Technical Information Center

Defense and National Aeronautics and Space Administration Management Issues

Military Operations and Capabilities Issues

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Subcommittee on Military Construction, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on National Security, Committee on Appropriations

House Subcommittee on Military Construction, Committee on Appropriations

House Committee on Government Reform and Oversight

House Subcommittee on National Security, International Affairs, and Criminal

Justice, Committee on Government Reform and Oversight

House Committee on National Security

Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Shelton R. Young
Evelyn R. Klemstine
Hassan A. Soliman
Walter S. Kowal
Judy K. Palmer
Diane M. Alvin
Stephanie D. Wells
Andrew E. Hornbrook
Thomas E. Biller

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Management of Foreign Military Sales Design and Construction Services

B. DATE Report Downloaded From the Internet: 12/12/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ **Preparation Date** 12/12/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.